

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED SEPTEMBER 30, 1999

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not considered to be material weakness?

X yes _____ none reported

Non-compliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not considered to be material weakness?

X yes _____ no

Type of auditor's report issued on compliance for major programs:

Qualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

X yes _____ no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

14.218

Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low risk auditee?

X Yes _____ no

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

Reportable Conditions

1. Grants Administration

The City's Administrative Regulations on Grant Management requires each Department Grant Coordinator to submit and encode all Grant related financial transactions (such as invoices, purchase orders, vouchers, etc.) and submit the documents to the Finance Department. It was noted during the audit that neither the Grants Administrator, the Department Grant Coordinators nor the Finance Department are determining whether the costs are allowable and that the expenditures are properly coded as to account number and classified to the appropriate fund. As a result, we noted the following transactions that were not identified or appropriately accounted for in a timely manner:

- We noted that approximately \$35,000 of architectural and engineering costs were initially charged to the Safe Neighborhood Grant, but was not a reimbursable cost per the grant agreement and should not have been charged to this grant.
- The City has a Cultural Facilities Program Grant from the State of Florida in which it received the Grant funds in advance of the expenditures. The City is required to spend the Grant Fund within a specified period of time. The City did not spend the funds timely, and faces the potential of having to return the money back to the grantor agency. Non-compliance with the time requirement was the result of substandard work performed by a contractor whereby the City is holding the unexpended grant funds as retainage payable.
- The City, through the Community, Planning and Development Department, expended approximately \$120,000 under a Miami-Dade County grant (through the County's CDBG entitlement) for the Downtown Redevelopment Project. Neither the grant agreement nor the supporting documentation was ever provided to the Grants Administrator. Two problems surfaced; (1) the Grants Administrator could not ensure compliance with the grant; (2) the Finance Department was unaware of the \$120,000 reimbursement that was to be made and therefore was not reflected in the accounting system. Four months after fiscal year end, an adjustment was recorded to finally account for the amounts owed to the City.

Recommendation

We recommend that all grants be centralized with the Grants Administrator to ensure proper authorization, approval and recording of the grant expenditures and reporting to appropriate agencies (i.e. overall compliance).

The City should ensure better coordination amongst its various departments involved in the grants process. We recommend that the Department Grant Coordinator initially submit and approve the supporting documentation (invoice, purchase order, etc.) and account coding, and submit the supporting documentation to the Grants Administrator for approval. The Grants Administrator should review and approve for allowable cost criteria and other compliance requirements of the grant agreement. The documentation should then be sent to the Finance Department to determine budget approval and correct account coding to the appropriate fund.

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Reportable Conditions (Continued)

1. *Grants Administration* (Continued)

Management Response

As per Administrative Regulation 1-60, Department Grant Coordinators are responsible for encoding all grant related financial transactions with the appropriate grant code. Additionally, a new procedure is being established whereby all purchase requisitions and direct vouchers for grant related expenditures would be reviewed by the Grant Administrator for compliance with specific grant provisions (i.e., allowable costs) prior to processing.

The non-expenditure of Cultural Facilities Program Grant funds within the required funding period for this grant was an isolated incident that resulted from substandard work performed by the contractor. Department Grant Coordinators are responsible for providing Monthly Status Reports to the Grant Administrator indicating the status of all grants. Additionally, any major program or financial changes affecting the completion of the project by the required date are required to be submitted, in advance, in writing, to the Grant Administrator. The Grant Administrator, Department Grant Coordinators, and Department Heads all monitor the progress of each project to ensure the expenditure of grant funds within the allowable granting period.

CDBG grant funding received either through the City's entitlement or as a subrecipient of the County's CDBG entitlement will remain centralized with the City's CDBG Administrator including responsibility for compliance with grant provisions. The Finance Department will receive a copy of all future CDBG grant documentation where the City is a subrecipient to ensure the proper and timely recording of all financial transactions and compliance with federal reporting requirements.

2. *Formalize Grant Review Procedures*

The City's Administrative Regulations require the Grant Administrator to conduct random reviews of the Grants to determine if the grants are in compliance with applicable requirements. The Grant Administrator prepares a schedule, which is used to review selected grants (Exhibit D of the Administrative Regulation).

Based on discussions with the Grants Administrator, a review of grants is being conducted, however, there is no formal documentation of this review process or of the findings noted as a result of this review. Therefore, the findings are not communicated to appropriate City management and no follow-up action can be enforced.

Recommendation

We recommend that the Grant Administrator review grants in accordance with the City's Administrative Regulations, document the findings and conclusions, and provide the review report to the City Manager or his designee so that corrective actions can be monitored. We recommend that a copy of the review report be provided to the Finance Department.

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Reportable Conditions (Continued)

2. *Formalize Grant Review Procedures* (Continued)

Management Response

In accordance with Administrative Regulation 160, the Grant Administrator will conduct random monthly grant audits to include, but not be limited to, a review of activities, deliverables, expenditures, matching funds, activities eligibility, allowable costs, financial reporting, cash management, and other compliance requirements as applicable. Findings will be provided in writing to the City Manager, and the appropriate Department Head and placed in the grant file. In addition, a copy of the review report will be provided to the Finance Department.

Other Matters

3. *Compensated Absences*

The City has an accrued vacation and sick leave liability in excess of \$5,000,000 at September 30, 1999. This liability will continue to increase on an annual basis as employees accrue more vacation and sick time than they use. Although this liability will never be paid out at one time, the City needs to consider future funding sources for this liability.

Recommendation

The City should consider sources of funding for this liability. One option may be to establish reserves and build-up this reserve through designated funding sources.

Management Response

The City will continue to budget and appropriate funds for its current liability for accrued vacation and sick leave. Although not required, in fiscal year 2001, the City will consider conducting an actuarial valuation to determine what the City's annual funding should be and if necessary establish reserves to meet future funding needs.

4. *Fixed Assets Accounting*

The City's recording of fixed assets is not prepared in a timely manner. Due to inefficiencies in the City's software, there was a lengthy reconciliation process required by the City in order for them to create the required journal entries for fixed asset additions and deletions (i.e., fiscal year 1999 entries not completed until 2000). Some of these delays resulted from a lack of full integration between the City's accounting system and the Fixed Asset management system. It also appears that no specific individual is fully responsible for fixed asset transactions during the year. This comment was also reported last year.

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Other Matters

4. *Fixed Assets Accounting* (Continued)

Recommendation

We recommend that the City evaluate its current fixed assets system and assign finance personnel to monitor the recording of fixed assets on a timely basis.

Management Response

The Finance Department is requesting in its fiscal year 2001 budget, a junior accountant position that would primarily be responsible for fixed assets accounting. Additionally, the City's current budget has appropriated funds for an outside firm to prepare/provide annual fixed asset inventories, new fixed asset software and the valuation of the City's infrastructure assets. The Finance Department is also developing a project code accounting subsystem to improve the reporting of capital projects. These changes will improve the entire fixed assets accounting system and should help the City in preparing for the GASB 34 implementation.

5. *New Pronouncement*

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. These new requirements were developed to make annual financial reports more comprehensive and easier to understand and use. The new reporting model will include government-wide financial statements, as well as fund financial statements, as well as a management's discussion and analysis section. Implementation will be required for fiscal year ending September 30, 2003. However, many of the reporting requirements need to be addressed several years before the required implementation date. We recommend that the City review the new requirements and plan accordingly.

Management Response

Management is in the process of reviewing the new financial reporting requirements under GASB Statement No. 34. In addition, the Finance Department has requested in-house programming modifications to the existing financial management system to facilitate the new financial reporting requirements. Additionally, staff members from both Finance and Public Works will be attending upcoming seminars on this issue.

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions

99-1

CFDA 14.218 Community Development Block Grant
U.S. Department of Housing and Urban Development

Reporting

As required by the U.S. Department of Housing and Urban Development (HUD) Compliance Supplement for the Community Development Block Grant (CDBG) Entitlement Program, the City is required to file a Program and Assessment Report no later than 90 days after completion of all CDBG-funded activities. The City's CDBG program year ran from August 1, 1998 to July 31, 1999. The Program and Assessment Report was due October 31, 1999. Through the date of our auditor's report, February 4, 2000, this report had not yet been filed.

Recommendation

We recommend that the City establish controls to ensure compliance for accurate and timely reporting in accordance with grant regulations.

Management Response

The delay in filing the Program and Assessment Report for FY 98/99 by October 31, 1999 was an isolated instance that was due to a staff shortage. The CDBG program is now fully staffed and all future reports will be submitted to HUD on a timely basis. The FY 98/99 report was filed with HUD on February 18, 2000.

99-2

CFDA 14.218 Community Development Block Grant
U.S. Department of Housing and Urban Development

Earmarking

The U.S. Office of Management and Budget Circular A-133 Compliance Supplement for the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) requires the City to spend at least 70 percent of the funds appropriated by the end of the grant term. The grant term is a period of up to three years from the ending date of the grant program year. (The CDBG Program Year is from August 1, 1998 to July 31, 1999). The City has been awarded CDBG appropriations (amount available to spend) of approximately \$5.5 million dating back to the program year ended July 31, 1996. The City has spent approximately \$1 million since that date. The City has not spent any of the appropriations from its July 31, 1997, July 31, 1998, or July 31, 1999 program year ended CDBG entitlements.

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

99-2

CFDA 14.218 Community Development Block Grant
U.S. Department of Housing and Urban Development

Earmarking (Continued)

In addition to our finding above, the City also received a letter from HUD regarding this matter, stating that the City was not in compliance. If the City does not comply with the spending requirements, they could be in jeopardy of losing their CDBG Entitlement.

Recommendation

We recommend the City monitor the CDBG grant and ensure that the funds are spent timely pursuant the grant agreement. The City should only list projects on the CDBG Action Plan that can be completed timely. The City has several projects listed on prior years Action Plans, which have not been started or have been partially expended and have been carried over from year to year. We recommend the City follow up on projects that have not started or that are not being completed timely. The City should consider obtaining approval to substitute new projects on its Action Plan to ensure the appropriated funds are expended on a timely basis.

Management Response

The City has taken steps to reduce its expenditure ratio by reprogramming funds from various inactive projects to activities and projects, which can be completed in a more timely fashion. In addition, several projects, which had been delayed, are now under construction and will result in substantial expenditures of CDBG funds by program year-end, July 31, 2000. These actions will ensure the City's compliance with the required 1.5 ratio.